Uncertainty over IMF bailout deepens Sri Lankan financial crisis

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Amid continued fierce fighting in northern Sri Lanka, the US and Britain have indicated that they will hold up a $US1.9 billion loan from the International Monetary Fund (IMF)—a decision that could precipitate a financial crisis in Colombo.

In Washington on Thursday, US Secretary of State Hillary Clinton announced: "We have... raised questions about the IMF loan [for Sri Lanka] at this time... it is not an appropriate time to consider that until there is a resolution of this conflict and that is what we are focused on."

Clinton's comments follow a call by US President Barack Obama for the Colombo government to stop "indiscriminate shelling" and for the separatist Liberation Tigers of Tamil Eelam (LTTE) to lay down their arms. Urging both sides to allow UN access to an estimated 50,000 civilians trapped by the fighting, he stated: "Without urgent action this humanitarian crisis could turn into a catastrophe".

Last Monday British Foreign Secretary David Miliband made a similar statement, saying: "It's essential that any government is able to show that it will use any IMF money in a responsible and appropriate way and... I don't think that is yet the case [in Sri Lanka]." French Foreign Minister Bernard Kouchner indicated his support for the British stance.

A human tragedy is undoubtedly unfolding in the fighting for the remaining few square kilometres of LTTE-held territory. Hundreds of men, women and children have been killed and many more injured as the Sri Lankan military continued its offensive with complete indifference to the fate of civilians. The army has shelled the only makeshift hospital in the no-fire zone twice this week. Pointing out that its vessels had been unable to land even limited supplies since last Saturday, the International Committee of the Red Cross declared that its staff were witnessing "an unimaginable humanitarian catastrophe".

The US, Britain and France have not, however, condemned the Sri Lankan government for its war crimes. All three countries backed Sri Lankan President Mahinda Rajapakse over the past three years as he ignored the 2002 ceasefire and plunged the island back to civil war. Now these major powers are exploiting the humanitarian disaster that their actions helped to create to advance their economic and strategic interests in Sri Lanka and the broader region, particularly India, where the war has triggered widespread opposition.

The threat to block the IMF loan—temporarily at least—confronts the Sri Lankan government with a serious financial problem. Having mortgaged the country to pay for his war, Rajapakse was confronted with a foreign exchange crisis as the global financial turmoil hit last September. Colombo was compelled to turn to the IMF in February as foreign reserves plunged from $US3.1 billion in September to $1.1 billion in February—sufficient for just six weeks of imports.

Rajapakse has repeatedly rejected international calls for a ceasefire. Speaking in Jordan yesterday to Sri Lankan migrant workers, he declared that the army would finish off the LTTE within 48 hours. The Colombo government has claimed that the end of its communal war would lead to peace and prosperity, but the deepening economic crisis makes clear that the end of fighting will be only the prelude to an offensive against the working class.

The protracted conflict in Sri Lanka was never “a war on terrorism” but a war to entrench the privileges of the Sinhala elites at the expense of their Tamil counterparts and working people as a whole. The army’s victories over the LTTE will only strengthen the hand of the most reactionary layers of the ruling elite in Colombo, who will not hesitate to use the police-state measures put in place during 26 years of war against any opposition by working people.

Speaking to business executives this week, Sri Lanka’s Central Bank Governor Ajith Nivard Cabraal tried to allay fears of an impending financial crisis. “Sri Lanka is working on a back-up plan with other countries to boost foreign reserves in addition to an International Monetary Fund loan,” he said. In March, the Central Bank obtained a loan of $200 million from Malaysia. Cabraal said negotiations were also underway with Libya for a $500 million loan, but these talks have dragged on for two months.

The Sri Lankan economy is suffering multiple problems. Exports declined by 10.7 percent in the first two months of this year compared to same period last year. The trade deficit fell, but only because imports declined by 37 percent. The current account deficit continued to rise to 72.3 billion rupees ($US610 million). Government revenue over the same two months fell to 90.8 billion rupees from 102.8 billion rupees last year, while expenditure jumped to 195 billion rupees from 159.5 billion rupees.

The IMF economic outlook for the Asia Pacific region released last week predicted that Sri Lanka’s budget deficit would rise to 9 percent of GDP this year while economic growth fell to 2.5 percent, down from 6 percent in 2008. Government debt has risen to 3.65 trillion rupees as against 3.14 trillion rupees in January-February 2008. And, according to *Lanka Business Online*, the government has printed at least 200 billion rupees since last September to patch up its financial position.

The deepening economic crisis is already hitting companies and resulting in thousands of layoffs. CT Smith Stockbrokers said profits for 212 companies listed on the Colombo Stock Exchange were down on average by 68 percent in the December quarter compared to the previous year. Dialog Telekom, the country’s largest mobile telecom operator, has laid off hundreds of employees. The largest apparel exporters—Mas Holdings and Brandix—have closed several factories and axed hundreds of jobs.

With or without the IMF loan, the Rajapakse government is preparing for an onslaught on the living conditions of workers. Speaking recently at the swearing-in ceremony for newly-elected Western Provincial councillors, Rajapakse declared: “[Our] heroic soldiers have almost wiped out the 30-year-old terrorist menace, and we are in the final phase of putting the final touches to the brutal war. And, now, it’s time for the economic war.”

Last month, as negotiations were underway with the IMF, the government announced austerity measures to slash expenditure. These included freezing public sector salaries and recruitments, easing restrictions on private sector layoffs, allowing the rupee to free fall against the US dollar, cutting state subsidies and increasing import and consumer taxes.

The war against the Tamil minority was always the means by which successive Colombo governments whipped up communal tensions in order to divide and weaken the working class. Now in the name of building the nation, Rajapakse is organising an “economic war” to compel working people to bear the burden of the financial crisis the war has helped produce.